

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6077

BILL NUMBER: HB 1143

NOTE PREPARED: Nov 4, 2011

BILL AMENDED:

SUBJECT: Child and Dependent Tax Credit.

FIRST AUTHOR: Rep. Day

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a refundable income tax credit to individuals for certain household, child care, or dependent care expenses associated with an individual's gainful employment. It provides that the amount of the credit is 50% of the amount allowed for the federal child and dependent care credit. It also provides that an individual whose federal adjusted gross income exceeds \$45,000 is not eligible for the credit.

Effective Date: July 1, 2012.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

Explanation of State Revenues: *Summary* - The bill establishes a refundable individual adjusted gross income (AGI) tax credit equal to 50% of the federal child and dependent care tax credit for taxpayers who claim the federal credit and whose federal AGI is \$45,000 or less. The tax credit is effective beginning in tax year 2013. It is estimated that the revenue loss from this credit could potentially total \$8.3 M in FY 2014 and could decline by about 3.65% annually thereafter. In contrast, if the eligible population and credits claimed remain static in the coming years, the revenue loss could potentially total about \$9.6 M annually beginning in FY 2014.

Background Information - In 2008, about 39,000 Indiana residents with federal AGI of \$45,000 or less claimed about \$19.1 M in credits for qualified child and dependent care expenses. From 2003 to 2008, the

number of taxpayers in that income group claiming the credit declined by an annual average of 3.4% and credits claimed by this group declined by an annual average of 2.75%. (Note: 2009 credit claims were excluded from this analysis because the recession resulted in claims significantly below trend.) Since the credit is effective beginning in tax year 2013, the fiscal impact would begin in FY 2014.

Federal Child and Dependent Care Credit: The federal credit applies to qualifying child or dependent care expenses paid in order for the taxpayer to be gainfully employed. To be eligible for the credit, a taxpayer must incur employment-related expenses in providing care for one of the following qualified individuals:

- (1) A dependent of the taxpayer who has not attained the age of 13.
- (2) A dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.
- (3) The taxpayer's spouse if the spouse is physically or mentally incapable of caring for himself or herself and resides with the taxpayer for more than one-half of the year.

Qualifying expenses include expenses paid for household services and for the care of a qualifying individual that allow the taxpayer (and the taxpayer's spouse) to work or look for work. Services outside the home qualify if they involve the care of a qualified child or a disabled spouse or dependent who regularly spends at least eight hours a day in the taxpayer's home. The maximum amount of qualified child and dependent care expenses to which the credit may be applied is \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals.

The credit amount is equal to a percentage of the qualified child and dependent care expenses. The applicable percentage ranges from 20% to 35% depending on the taxpayer's federal AGI. If the taxpayer's federal AGI is \$15,000 or less, the applicable percentage is 35%. The credit is reduced by one percentage point per \$2,000 of AGI in excess of \$15,000. The applicable percentage is fixed at 20% for taxpayers with federal AGI exceeding \$43,000. The maximum federal credit amount is \$1,050 for expenses relating to one qualifying dependent and \$2,100 for expenses relating to two or more qualifying dependents. This means the maximum AGI Tax credit under the bill would range from \$525 to \$1,050.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Federal Tax Database, 1996-2005; Internal Revenue Service, Statistics on Income, Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Years 2003-2009.

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